VALKYRIES PETROLEUM CORP.

Annual Report

For the year ended December 31, 2003

VALKYRIES PETROLEUM CORP.
ANNUAL REPORT TO SHAREHOLDERS
For the Year Ended December 31, 2003

The Board of Directors is pleased to present the following report to shareholders on the activities of the Company over the past year and its plans for fiscal 2004.

The Company is rapidly building a strong, diversified portfolio of oil and gas production and exploration assets. The Company recently announced an agreement to acquire a 50% interest in a large Russian production and exploration project, launching the Company as a significant new entrant into the oil and gas industry.

ZAO Pechoraneftegas Project – Russia

In May, 2004, the Company signed an agreement to acquire a 50% interest in the ZAO Pechoraneftegas (PNG) project in the Komi Republic of Russia. Under the terms of the agreement, Valkyries will acquire 50% of the shares of a Cyprus company owned by Vitol Russia B.V. ("Vitol") for a total purchase price of US$39MM.

The primary assets of PNG include the Sotchemyu-Talyu producing fields and two exploration licenses on the Kadzherom and Mutnomateric blocks (see attached map). The Sotchemyu-Talyu field produces from Devonian shelf edge reefs at a current rate of 6800 BOPD. An independent third party SEC reserve report completed in April of 2004 indicates proven reserves of 24.2 million barrels or oil (12.1 million barrels net to Valkyries). The reserves report estimates 2004 cash flow net to Valkyries of US$10.8 million rising to over US$17 MM per year by 2006 and a net present value of Valkyries interest in the project of US$75 million discounted at 10 percent.

A 3D seismic program is currently underway to delineate further development locations for infill drilling. According to the reserves report, infill drilling is expected to increase field production to over 10,000 BOPD. The field has a direct tie into the main Transneft pipeline and has modern field facilities with over 150,000 barrels of in-field storage.

Final preparations are underway to drill the first exploration well on the Kadzherom license area. This well is expected to spud on May 9th and will be drilled on a reef prospect directly on trend with the proven Sotchemyu field area. If successful, the resulting production could be immediately tied onto the existing infrastructure. Volume estimates for this prospect range from 2 – 10 MMBO.

The Mutnomateric block is a large (6000 sq. km) area with oil fields and oil tests on three sides. It has not had any exploration work conducted in the post-Soviet era and several interesting leads have been developed on older vintage seismic. An evaluation of the block is underway to determine the future seismic and drilling program.

Vitol will retain a 50% interest and be responsible for all crude transportation and marketing aspects of the project. Vitol is currently the largest crude marketing company in the world and can thus add value in one of the most critical areas of the CIS. Several additional projects in the CIS in cooperation with Vitol are being discussed.

Queen City Gas Exploration Project - Texas

A new gas exploration well, Canales No. 1, spudded in April, 2004 on the Tiara prospect in south Texas. The well reached its final depth of approximately 9,100 feet and is currently undergoing testing. The prospect was estimated by Ryder Scott in January of 2003 to contain 4.5 to 11.6 billion cubic feet of gas with a prospect risk of .448. Since that time, a large exploration 3D seismic survey was acquired which demonstrated good amplitude and far offset data that enhanced the prospectivity of the well. Test results are expected towards the end of May, 2004.

A second offset well, Huizer No. 1, is expected to spud shortly, sited approximately 400 metres north of the Canales No. 1 well. Anticipated total depth is 9,100 feet.

Two additional shallow prospects have been identified on the newly acquired 3D seismic survey and are currently being leased. It is the intention of the partnership group that both of these wells will be drilled this year. Detailed reprocessing of the 3D seismic survey in the area covering the Palangana Salt Dome is currently underway. An initial review of the data suggests there is the potential for several additional prospects in this area.

A deep Wilcox well spud on March 7, 2004 on the Hurd Unit area on which Valkyries farmed out a 17.1% interest. The well was drilled to a total depth of approximately 12,500 feet but was dry.

The Mustang field discovery well is currently on long term production test. The Alta-Kenedy #1 well came on in January of this year with initial rates of 750 thousand cubic feet per day of gas and 35 barrels of condensate per day. Since that time the flow rates declined to approximately 300 thousand cubic feet of gas per day and 15 barrels of condensate per day. A workover was undertaken in mid-March and the well is currently being stabilized to determine the new production rate.

Rincon Energy Partners, LLC

The Company has an agreement to earn a 33 1/3% interest in Rincon Energy Partners, LLC ("Rincon") which includes rights to both previously generated and future prospects in return for funding a portion of the ongoing operating expenses. The Company has a right of first refusal to participate up to its equity percentage in all prospects generated by Rincon. Rincon is managed by Rincon Energy, LLC, an oil and gas consulting company based in California. The Company has agreed to fund 33.3% of Rincon overhead expenses (including office lease, staff salaries and software leases) which are currently US$60,000 per month in exchange for a 33.3% interest in the partnership. Several prospects had been developed by Rincon prior to the investment by the Company and these will be included in the partnership. Two of these prospects have now been sold to Cabot Oil and Gas Corp. ("Cabot") who has successfully obtained the offshore licenses in a recent Federal Lease Sale. These blocks contain multiple prospects with total potential reserves of 10-40 billion cubic feet of gas. Cabot has indicated to Rincon that they intend to drill both blocks this year. Under the terms of the farmout agreement, Rincon will gain a 2.5% overriding royalty interest in any production from the two blocks. Under various consulting agreements, Rincon has access to a large volume of 3D seismic data and will continue to generate additional prospects for sale to the industry.

Mintley Strategic Alliance

The Company recently entered into a strategic alliance with Mintley Investments Limited ("Mintley") to jointly pursue certain oil exploration and production projects in Russia and the CSI. As part of the arrangement, Mintley took a $2.25 million equity interest in Valkyries in the form of a private placement.

Mintley is a corporate finance company based in Europe specializing in the oil and gas sector. It has recently completed transactions in Russia, Azerbaijan and Kazakhstan for its clients and also on its own account.

Corporate

The Company raised Cdn $4.61 million during the year by way of private placement. Subsequent to year end, the Company raised an additional Cdn $2.25 million through the Mintley strategic alliance.

Investor relations activities are carried out by Company personnel and include the design and maintenance of a corporate website, investor information packages, presentation material and shareholder and analyst meetings.

On behalf of the Board,

(signed) Keith C. Hill
President

May 13, 2004

VALKYRIES PETROLEUM CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
(Amounts in Canadian Dollars unless otherwise indicated)
DECEMBER 31, 2003 and 2002

The following discussion and analysis of the results of operations and financial condition ("MD&A") for Valkyries Petroleum Corp. (the "Company") should be read in conjunction with the consolidated financial statements for the years ended December 31, 2003 and 2002 and related notes therein. The financial information in this MD&A is derived from the Company's consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is May 5, 2004.

Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

General

The Company is principally engaged in the acquisition, exploration and development of oil and gas properties. The Company has an interest in exploration properties collectively known as the Queen City Project, located in the Queen City gas trend in Duval and Jim Hogg counties, South Texas. During the second quarter of 2003, the Company drilled the first well on the North Mew prospect, Queen City Project. The well encountered porous Queen City sands at the depth prognosis but no hydrocarbons were encountered and the well was plugged and abandoned. The second well in the program was drilled on the Mustang prospect, Queen City Project in the second half of 2003 and resulted in a gas discovery which is currently on long term test. The well initially produced 800,000 cubic feet of gas per day ("cfgd") but declined to a rate of 300,000 cfgd where it appears to have stabilized. Studies are ongoing as to the economic viability of full field development. In addition, a large 3D seismic survey was acquired in the San Diego exploration area. This survey was funded by Contango Oil and Gas under a farm-out agreement. As a result of this survey, several prospects were identified and one of these, the Tiara prospect, is currently being drilled. Two other shallow gas prospects have been identified and are being leased.

The Company has also entered into an agreement to earn a 33 1/3% interest in Rincon Energy Partners, LLC ("Rincon") which includes rights to both previously generated and future prospects in return for funding a portion of the ongoing operating expenses. The Company has a right of first refusal to participate up to its equity percentage in all prospects generated by Rincon. Rincon is managed by Rincon Energy, LLC, an oil and gas consulting company based in California. The Company has agreed to fund 33.3% of Rincon overhead expenses (including office lease, staff salaries and software leases) which are currently US$60,000 per month in exchange for a 33.3% interest in the partnership. Several prospects had been developed by Rincon prior to the investment by the Company and these will be included in the partnership. Two of these prospects have now been sold to Cabot Oil and Gas Corp. ("Cabot") who has successfully obtained the offshore licenses in a recent Federal Lease Sale. These blocks contain multiple prospects with total potential reserves of 10-40 billion cubic feet of gas. Cabot has indicated to Rincon that they intend to drill both blocks this year. Under the terms of the farmout agreement, Rincon will gain a 2.5% overriding royalty interest in any production from the two blocks. Under various consulting agreements, Rincon has access to a large volume of 3D seismic data and will continue to generate additional prospects for sale to the industry.

The Company, through its wholly owned subsidiary, Union Copper Inc., holds a 70% partnership interest in the Oracle Ridge Mining Partners (the "Partnership"). The Partnership has an underground copper mine near Tucson, Arizona, which was shut down in February 1996. The mine has been determined to be unviable economically and reclamation efforts were commenced and substantially completed in 2003. A settlement has been reached with Pima County in Arizona to settle back taxes in exchange for 3 of the 5 real estate parcels owned by the Partnership. The other two parcels are being sold and are currently in escrow.

Several projects in Russia, Kazakhstan and Azerbaijan are currently being evaluated and include proven producing reserves as well as exploration projects. Expenditures in this area consist of travel, legal, consulting and third party certification fees. Details of the expenditures associated with these investigations are included in Note 1(b) of the Supplementary Information to the audited Consolidated Financial Statements.

In April 2004, the Company signed an agreement with Vitol Russia B.V. ("Vitol") to acquire a 50% interest in Samson/Vitol (Cyprus) Limited ("SV"), a Cyprus company which owns a 100% interest in the ZAO Pechoraneftegas project ("PNG") in the Komi Republic of Russia. Vitol currently owns 48% of SV but has signed an agreement to purchase the other 52% of SV. Under the terms of the agreement, Valkyries will acquire 50% of the shares of SV from Vitol for a total purchase price of US$39 million (the "Consideration") plus payment for 50% of Vitol consolidated net working capital as at March 31, 2004 subject to adjustment from April 1, 2004 to completion date. The estimated consolidated net working capital at March 31, 2004 is US$3.068 million. A deposit of US$5 million was paid in April 2004 and will be applied to the Consideration upon completion of the acquisition. Vitol would retain the deposit if the transaction is not completed by November 1, 2004, or if the Company is unable to obtain regulatory approval or the approval by the Central Bank of Cyprus of the Company's purchase of SV or if the Company has not paid the purchase price in full. If completion does not occur by July 1, 2004, interest will accrue on the Consideration at Libor plus 2% from July 1, 2004 until the day of completion. The deposit was funded using US$ 3 million of cash on hand and a short term loan of US$2 million from the former Chairman of the Company which is not interest bearing and due on or before November 3, 2004. The lender is entitled to a bonus of common shares of the Company with a total market value of up to 20% of the amount of the loan, such shares to have a deemed value equivalent to the price of the shares sold pursuant to a proposed equity financing to finance the acquisition. The Company intends to finance this acquisition through a combination of bank debt and an equity offering in Canada. The acquisition is subject to satisfaction of certain conditions, including Vitol acquiring the remaining 52% of the shares of SV, approval by the Central Bank of Cyprus of the Company's purchase of SV and regulatory approvals on or before November 1, 2004.

Selected Annual Information

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Statement of Operations Data			
Total Revenue (i)	$ -	$ 55,998	$ 87,915
Interest income	$ 14,164	$ 3,165	$ 100,487
Net loss from continuing operations	$ (1,900,233)	$ (929,240)	$ (7,481,037)
Net Loss	$ (1,953,021)	$ (1,419,613)	$ (8,008,584)
Data per Common Share			
Basic and diluted net loss from continuing operations per share	$ (0.14)	$ (0.14)	$ (1.59)
Basic and diluted net loss per share	$ (0.15)	$ (0.21)	$ (1.70)
Balance Sheet Data			
Total Assets	$ 5,229,880	$ 2,023,353	$ 473,995
Long Term Liabilities	NIL	NIL	NIL

(i) Consists of oil and gas sales.

Selected Quarterly Information

Financial Data for 8 Quarters								
Three Months Ended	**Dec-03**	**Sep-03**	**Jun-03**	**Mar-03**	**Dec-02**	**Sep-02**	**Jun-02**	**Mar-02**
A. Total revenues ($000's) (i)	-	-	-	-	-	-	11	45
B. Loss (earnings) from continuing operations ($000's)	699	387	492	322	272	155	374	128
C. Net loss (earnings) ($000's)	754	479	434	285	450	287	444	239
D. Basic and diluted loss (earnings) from continuing operations per share	(0.04)	(0.03)	(0.04)	(0.03)	(0.04)	(0.02)	(0.07)	(0.02)
E. Basic and diluted loss (earnings) per share ($)	(0.04)	(0.04)	(0.04)	(0.03)	(0.05)	(0.04)	(0.08)	(0.05)

(i) Consists of oil and gas sales.

Results of Operations

Fourth Quarter of 2003 compared to 2002

The loss from continuing operations for the fourth quarter of 2003 was $699,000 as compared to a loss from continuing operations of $272,000 for 2002, an increase of $397,000. This increase in loss in the fourth quarter of 2003 is primarily due to an increase in operating expenses. In particular, oil and gas project investigation expenses increased by $252,000 in the fourth quarter of 2003 over the same period in 2002 as a result of the Company's review of various oil and gas projects in Kazakhstan and share of operating expenses relating to Rincon.

Year ended December 31, 2003 compared to 2002

The Company's loss for the year ended December 31, 2003 was $1,953,000 compared to a loss of $1,420,000 for the year ended December 31, 2002, an increase of $533,000. The increase in loss is primarily due to an increase in operating expenses. There were no oil and gas revenues and related production costs from the Sneddon well in 2003 as the Company had relinquished its interest in 2002. During 2003, the Company recorded a write-off of $253,000 of expenditures in respect of the North Mew well which was plugged and abandoned due to no hydrocarbons being encountered.

Operating expenses for the year ended December 31, 2003 were $1.6 million as compared to $614,000 for the year ended December 31, 2002, an increase of $1 million. The increase is attributed to the increased level of activities in the Company. In particular, oil and gas exploration and project investigation expenses increased by $860,000 for 2003 as compared to $43,000 for 2002. During the 2003 the Company reviewed various oil and gas projects in Kazakhstan, Ecuador, Argentina and Trinidad. Oil and gas exploration expenses for 2003 also included the Company's share of ongoing operating expenses of approximately $307,000 relating to Rincon. In addition, salaries and benefits, net of recovery from related parties, increased by $180,000 for 2003. Salaries and benefits are comprised of amounts paid to the President and Chief Executive Officer of the Company.

The Company's loss from discontinued operations of the Partnership for the year ended December 31, 2003 and 2002 was $53,000 and $490,000, respectively. The decrease in the loss of $437,000 from discontinued operations is primarily due to fluctuating exchange rates in respect of expenses denominated in United States dollars.

Liquidity and Capital Resources

At December 31, 2003 the Company had a working capital of $423,000, compared to a working capital deficiency of $3.5 million at December 31, 2002.

During the year ended December 31, 2003, the Company completed two private placements. The first private placement consisted of 3 million units of the Company at a price of $1.00 per unit. Each unit comprises one common share of the Company and one-half of one share purchase warrant. Each whole warrant is exercisable over a period of two years at a price of $1.10 in the first year and $1.20 in the second year.

The second private placement consisted of 2.3 million units of the Company at a price of $0.70 per unit for gross proceeds of $1.61 million. Each unit comprises one common share of the Company and one share purchase warrant. Each warrant is exercisable into one common share of the Company over a period of two years at a price of $1.00 for the first year and $1.20 the second year. However, in the event the closing price of the Company's shares is $1.25 or greater for a period of 15 consecutive trading days following the expiry of the initial 4 month hold period, then the warrants shall expire 10 trading days from such event. All of the warrants in connection with the second private placement were exercised.

Subsequent to December 31, 2003, the Company completed a private placement of one million units at $2.25 per unit with each unit consisting of one common share of the Company and one-half of one share purchase warrant. Each whole warrant is exercisable into one common share of the Company at a price of $2.50 over a period of one year. In the event that the Company's shares trade above $3.00 for a period of 10 consecutive trading days following the expiry of the 4 month hold period, then the warrants shall expire 15 trading days from such event. All the warrants in connection with this private placement were exercised. The proceeds of this placement will be used for general working capital purposes and acquisition. For the purposes of the Company's proposed acquisition of 50% of SV, the Company intends to raise a combination of debt and equity.

Expenditures incurred in respect of the Queen City project during 2003 were $350,000. The Queen City project expenditures were mainly related to drilling costs, lease payments, management fees and professional fees.

The Company does not generate sufficient cash flow from operations to fund either its exploration and development activities, its acquisitions or to fund the administration of the Company, and has therefore relied upon the sale of equity and debt securities to provide additional financings. Since the Company does not expect to generate sufficient revenues in the near future, it will have to continue to rely upon the sales of its equity and debt securities to raise capital. It follows that there can be no assurance that financings, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any period and, if available, that it can be obtained on terms satisfactory to the Company.

Related Party Transactions

The Company's transactions with related parties are disclosed in Note 12 to the consolidated financial statements.

Outstanding Share Data

As at April 30, 2004, the Company had 19,241,748 common shares outstanding and 50,000 share options outstanding under its stock-based incentive plan. At the same date, the Company had 2,867,800 share purchase warrants outstanding.

Risks

The Company's properties/operations are subject to certain risks including but not limited to government regulations relating to mining, oil and gas prices and currency rate fluctuation, competition, receipts of permits and approval from government authorities, operating hazards and other risks inherent to the exploration development and operation of a mine.

Cautionary Note Regarding Forward-Looking Statements

Certain statements contained in the foregoing Management's Discussion and Analysis and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set above.

Outlook

Should additional funds be required, the Company intends to raise funds through the sale of its debt or equity securities to meet on going corporate needs.

The accompanying consolidated financial statements of Valkyries Petroleum Corp. and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are based on management's best estimates, which have been made using careful judgment.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling their responsibilities, management of the Company and its subsidiaries have developed and continue to maintain systems of internal accounting controls that are appropriate in the circumstances. Although no cost effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, comprising management and outside directors. The audit committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The Company's auditors have full access to the audit committee, with or without management being present.

These financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, and their report follows.

"Keith Hill"
Keith Hill
President

"Wanda Lee"
Wanda Lee
Controller/Treasurer

Vancouver, British Columbia
May 5, 2004

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Deloitte & Touche

Auditors' Report

To the Shareholders of
Valkyries Petroleum Corp.

We have audited the consolidated balance sheets of Valkyries Petroleum Corp. as at December 31, 2003 and 2002 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
May 5, 2004

Deloitte
Touche
Tohmatsu

VALKYRIES PETROLEUM CORP.
CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2002
ASSETS		
Current assets		
Cash	$ 2,070,742	$ 72,356
Accounts receivable	48,245	6,170
Prepaid expenses	78,770	-
	2,197,757	78,526
Oil and gas interests (Note 3)	2,811,240	1,884,417
Advance to drilling partner (Note 3)	172,029	-
Property and related assets held for sale (Note 4)	1	1
Equipment (Note 5)	2,714	4,017
Other asset (Note 7)	46,139	56,392
	$ 5,229,880	$ 2,023,353
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,685,665	$ 1,777,063
Loan payable to related party (Note 11)	-	1,357,008
Due to related parties (Note 11)	6,443	41,239
Reclamation obligations (Note 7)	-	368,758
	1,692,108	3,544,068
SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)		
Share capital (Note 8)	43,499,459	36,507,951
Shares to be issued (Note 8 (a)(ii))	20,000	-
Contributed surplus	13,343	13,343
Deficit	(39,995,030)	(38,042,009)
	3,537,772	(1,520,715)
	$ 5,229,880	$ 2,023,353

Continuing operations (Note 1)
Commitments (Note 10)
Contingent Liabilities (Note 11)
Subsequent events (Note 14)

Approved by the Board:

"Keith C. Hill"
Director

"William A. Rand"
Director

VALKYRIES PETROLEUM CORP.
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Year ended December 31, 2003	Year ended December 31, 2002
Revenue		
Oil and gas sales	$ -	$ 55,998
Costs of gas sold		
Depletion	-	14,390
Production costs	-	23,586
Royalties	-	69,575
	-	107,551
Expenses		
Amortization	1,303	326
Interest and financing costs	4,394	96,773
Management and administrative services fees	180,000	145,000
Office and general	39,081	29,367
Oil and gas project investigation (Note 10)	903,059	43,152
Professional fees	94,087	58,217
Promotion and public relations	23,571	26,438
Salaries and benefits	294,543	114,744
Stock-based compensation	-	13,343
Stock exchange and filing fees	49,223	28,654
Telephone and facsimile	11,907	3,255
Transfer agent and shareholder information	24,343	23,582
Travel	20,478	31,169
	1,645,989	614,020
Other (income) expenses		
Interest income	(14,164)	(3,165)
Foreign exchange loss (gain)	15,115	(3,778)
Write-off of oil and gas interests (Note 3)	253,293	270,610
	254,244	263,667
Net loss from continuing operations	1,900,233	929,240
Net loss from discontinued operations (Note 4)	52,788	490,373
Net loss for the year	1,953,021	1,419,613
Deficit, beginning of the year	38,042,009	36,622,396
Deficit, end of the year	$ 39,995,030	$ 38,042,009
Basic and diluted loss per share		
from continuing operations	$ 0.14	$ 0.14
from discontinued operations	0.00	0.07
	$ 0.15	$ 0.21
Weighted average number of shares outstanding	13,346,855	6,820,084

VALKYRIES PETROLEUM CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2003	Year ended December 31, 2002
Cash flows from (for) operating activities		
Net loss from continuing operations	$ (1,900,233)	$ (929,240)
Add non-cash items		
Amortization and depletion	1,303	14,716
Stock-based compensation	-	13,343
Write-off of oil and gas interests	253,293	270,610
Unrealized foreign exchange	10,253	464
	(1,635,384)	(630,107)
Loss from discontinued operations	(52,788)	(490,373)
	(1,688,172)	(1,120,480)
Changes in non-cash working capital items		
Accounts receivable and prepaid expenses	(120,845)	2,311
Accounts payable, accrued and other liabilities	(460,155)	368,333
	(2,269,172)	(749,836)
Cash flows from (for) financing activities		
Common shares issued, net of issue costs	6,936,257	1,146,200
Common shares to be issued	20,000	-
Loan payable to related party	(1,301,757)	1,486,602
Due to related parties	(34,796)	24,363
Due to drilling partner	-	(69,870)
	5,619,704	2,587,295
Cash flows from (for) investing activities		
Oil and gas interests	(1,180,117)	(1,884,417)
Advance to drilling partner	(172,029)	(4,343)
	(1,352,146)	(1,888,760)
Increase (decrease) in cash	1,998,386	(51,301)
Cash, beginning of the year	72,356	123,657
Cash, end of the year	$ 2,070,742	$ 72,356
Supplementary information regarding non-cash transaction		
Investing and financing activities		
Common shares issued in payment of bonus (Note 6(a))	$ 55,251	$ -
Common shares issued on settlement of loan payable (Note 6(b))	$ -	$ 2,517,452

VALKYRIES PETROLEUM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003 and 2002

1. DESCRIPTION OF BUSINESS AND CONTINUING OF OPERATIONS

The Company is principally engaged in the acquisition, exploration and development of oil and gas and mineral resource properties.

In addition, the Company, through its wholly owned subsidiary, Union Copper Inc. ("Union"), holds a 70% partnership interest in the Oracle Ridge Mining Partners (the "Partnership"). The Partnership has an underground copper mine near Tucson, Arizona which commenced commercial production in 1991. In February 1996, the mine was shut down (Note 4).

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern and thereby realize its assets and discharge its liabilities in the normal course of business. The Company currently has no operating revenues and, during the years ended December 31, 2003 and 2002, incurred losses of $1,979,003 and $929,240, respectively from continuing operations. Consequently, the Company's ability to continue as a going concern is dependent on the support of its creditors, the Company's ability to obtain additional financing and, ultimately, the attainment of profitable operations.

These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make assumptions and estimates that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimates.

The significant accounting policies used in these consolidated financial statements are as follows:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned and partially-owned subsidiaries: Valkyries Petroleum Kazakhstan Ltd., Santa Catalina (Bermuda) I Ltd. (100%), Santa Catalina (Bermuda) II Ltd. (100%), Santa Catalina (Algeria) Ltd. ("SCAL") (100%), Santa Catalina L.H. Lundin (Algeria) Ltd. ("SC Lundin") (100% owned by SCAL), Valkyries California Corp., Valkyries U.S.A. Ltd., Valkyries Texas Corp., Union Copper Inc. (100%) and Oracle Ridge Mining Partners (70%).

All significant inter-company balances and transaction have been eliminated upon consolidation.

(b) Foreign currency translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at the exchange rate prevailing on the balance sheet date. Exchange gains and losses arising from translation are included in operations.

Integrated foreign operations are translated into Canadian dollars as follows: monetary assets and liabilities are translated at the exchange rate prevailing on the balance sheet date; non-monetary assets and liabilities, revenues and expenses are translated at exchange rates prevailing on the dates of transactions. Exchange gains and losses arising from translation are included in operations.

(c) Oil and gas interests

General oil and gas project investigation is expensed as incurred.

The Company follows the full cost method of accounting for oil and gas interests, as set out in the guideline issued by the Canadian Institute of Chartered Accountants.

Under this method, capitalized costs are accumulated in country-by-country cost centres. Capitalized costs include acquisition costs and expenditures for geological and geophysical surveys, carrying and retaining undeveloped properties, drilling exploration and development wells, other development and direct general and administration expenditures.

Incidental revenue from the production of oil and gas is offset against capitalized costs of the related cost centre until quantities of proven reserves are determined and commercial production has commenced.

Prior to commercial production, the recoverability of amounts recorded as oil and gas interests is dependent upon the completion of exploration work, discovery of oil and gas reserves in commercial quantities and the subsequent development of these reserves.

Subsequent to commercial production, the carrying value of net capitalized costs within each cost centre is limited to an estimated recoverable amount, which is the aggregate of estimated future net revenues from proved reserves plus the costs of undeveloped properties, net of certain costs (the "Ceiling Test"), and will be amortized to operations as depletion. Depletion will be determined using the unit-of- production method based on the Company's share of proven reserves, calculated on an entitlement basis.

(d) Equipment

Equipment is recorded at cost. Amortization is provided on declining balance basis over the expected life of the computer equipment at a rate of 30% per annum.

(e) Revenue recognition

Revenue from the sale of oil and gas is recognized, net of related royalties, when: (i) persuasive evidence of an arrangement exists; (ii) the risks and rewards of ownership pass to the purchaser including delivery of the products; (iii) the selling price is fixed or determinable, and (iv) collectibility is reasonably assured.

(f) Income taxes

The Company accounts for income taxes using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(g) Provision for reclamation

Reclamation costs have been estimated based on the Company's interpretation of regulatory requirements. Reclamation activities associated with the Partnership has been substantially completed at December 31, 2003.

(h) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. For calculating the diluted loss per share, the treasury stock method is used for the purpose of determining the common share equivalents with respect to outstanding stock options and warrants to be included in the weighted average number of common shares outstanding, if dilutive.

(i) Stock-based compensation

Effective January 1, 2003, the Company early adopted the revised requirements of CICA Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments", whereby the fair value of stock options awarded to employees and non-employees are measured and recognized in the statement of operations over the vesting period. As permitted by Section 3870, this policy has been adopted prospectively, meaning prior years have not been restated.

During the year ended December 31, 2003, no stock options were granted and as such this change in accounting policy did not have an effect on the current year. Note 8(b) provides disclosure of pro forma net loss as if the standard was adopted on January 1, 2002.

(j) Financial instruments

The fair value of the Company's cash, accounts receivable, bond with the State of Arizona, accounts payable and accrued liabilities and amounts due to related parties is estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

(k) Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

3. OIL AND GAS INTERESTS

	Sneddon Project Canada	Queen City Project USA	Total
Balance - December 31, 2001	$ 285,000	$ -	$ 285,000
Acquisition	-	1,835,395	1,835,395
Lease payments	-	37,175	37,175
Management fees	-	11,847	11,847
Incurred during the year	-	1,884,417	1,884,417
Depletion	(14,390)	-	(14,390)
Amounts written-off (Note 3 (b))	(270,610)	-	(270,610)
			-
Balance, December 31, 2002	-	1,884,417	1,884,417
Staking and title	-	5,725	5,725
Road maintenance	-	26,008	26,008
Drilling	-	683,656	683,656
Transportation	-	1,283	1,283
Site reclamation	-	8,869	8,869
Logging	-	11,262	11,262
Equipment rental	-	6,227	6,227
Casing crews	-	7,583	7,583
Consulting	-	3,797	3,797
Wellhead equipment	-	3,163	3,163
Lease payments	-	255,990	255,990
Management fees	-	87,825	87,825
Consulting fees	-	3,640	3,640
Professional fees	-	2,740	2,740
Completion	-	72,349	72,349
Incurred during the year	-	1,180,117	1,180,117
Write-off of oil and gas interests (Note 3 (a))	-	(253,294)	(253,294)
Balance, December 31, 2003	$ -	$ 2,811,240	$ 2,811,240

(a) Queen City Project

On November 20, 2002, the Company entered into an agreement to acquire a 75% interest in exploration properties collectively known as the Queen City Project, located in the Queen City gas trend in Duval and Jim Hogg counties, South Texas, from Alta Resources, L.L.C. ("Alta"). The Queen City Project is in the pre-production stage. The Company paid Alta US$1,159,500 ($1,835,395) for the interest in the properties and has committed to the drilling of two exploration wells for a total estimated project cost of US$2 million. Alta will retain a sliding scale over-riding royalty of 1 to 3% and the right to back-in for up to a 20% interest after payout.

During the year ended December 31, 2003, the Company expended $829,922 in respect of the North Mew and Mustang wells.

The North Mew well was plugged and abandoned as it was determined that no hydrocarbons were encountered. Accordingly, the Company wrote off expenditures in the amount of $253,294 with respect to the North Mew well in 2003.

To December 31, 2003, the Company advanced $172,029 to its partner in respect of exploration on the Queen City project wells.

(b) Sneddon

During 2002, the Company wrote-off $270,610 of expenditures relating to the Sneddon concession to operations since operations had been suspended and there were no plans to resume production. On October 21, 2002, the Company relinquished the Sneddon concession, which was in the pre-production stage.

4. PROPERTY AND RELATED ASSETS HELD FOR SALE

In early 1996, the Partnership decided to sell the copper mine in Arizona. In February 1996 the mine was shut down until a sale could be consummated. Accordingly, as a result of the prolonged shut down period, Union's proportionate interest in the property and related assets held for sale was written down in 1997 to a nominal value.

The Company continues to advance funds to the Partnership to cover on-going maintenance costs and for reclamation. The amount of such future costs is expected to be minimal.

5. EQUIPMENT

	Cost	Accumulated Depreciation	December 31, 2003 net book value	December 31, 2002 net book value
Computer equipment	$ 4,343	$ 1,629	$ 2,714	$ 4,017

6. LOANS PAYABLE TO RELATED PARTY

(a) In order to pay Alta (Note 3(a)) for the acquisition of the Queen City Gas Project, the Company arranged a non-interest bearing bridge loan from the former Chairman of the Company in the amount of $1,105,020 (US$700,000) during 2002. As consideration for the loan, the Company agreed to issue to the former Chairman of the Company a bonus consisting of common shares of the Company with a total market value of up to 5% of the amount of the loan or $55,251. During 2003, the Company repaid the loan and issued 61,390 bonus shares at $0.90 per share (Note 9(a)) in satisfaction of payment of the bonus.

(b) In 2002, the Company issued 3,033,574 shares to the former Chairman of the Company in repayment of a credit facility in the amount of US$1.25 million ($1,973,950) arranged in 2001 plus payment of interest of $149,552 and issued 375,190 shares for payment of a bonus of 20% of the amount of the loan or US$250,000 ($393,950).

(c) During 2002, the Company also received advances of $191,552 from the Chairman of the Company. As at December 31, 2002, accrued interest on these advances totalled $5,185. During 2003, the advances including interest were repaid.

7. RECLAMATION OBLIGATIONS

Under an arrangement with the State of Arizona, the Partnership has provided a US$51,000 bond of which the Company's share is US$35,700 ($46,139; 2002 - $56,392) and was also required to pay the State a further US$0.05 for each ton of ore mined up to a total of US$99,000 to be used for reclamation. During 2003, the Partnership substantially completed reclamation of the mine site and is in the process of applying for the certificate to release the bond from the State of Arizona.

8. SHARE CAPITAL

(a) The authorized and issued share capital is as follows:

Authorized - Unlimited number of common shares with no par value.

	Number of Shares	Amount
Issued and outstanding		
Balance, December 31, 2001	4,712,894	$ 32,844,299
Settlement of loan payable (i)	3,033,574	2,123,502
Issue of bonus shares (Note 6(b))	375,190	393,950
Private placement, net (ii)	1,500,000	1,146,200
Balance, December 31, 2002	9,621,658	36,507,951
Private placements, net (iii)	5,300,000	4,541,257
Issue of bonus shares (Note 6(a))	61,390	55,251
Exercise of warrants	2,395,000	2,395,000
Balance, December 31, 2003	17,378,048	$ 43,499,459

(i) On June 20, 2002, the Company issued 3,033,574 shares at a price of $0.70 per share on settlement of a loan payable and issued 375,190 bonus shares at a price of $1.05 to the Chairman of the Company (Note 6(b)).

(ii) On September 27, 2002, the Company completed a private placement of 1.5 million units of the Company at a price of $0.80 per unit for gross proceeds of $1.2 million. Each unit is comprised of one common share of the Company and one share purchase warrant. Each warrant is exercisable into one common share of the Company over a period of two years at a price of $1.00 per share.

(iii) During the year ended December 31, 2003, the Company completed two private placements.

The first private placement consisted of 3 million units of the Company at a price of $1.00 per unit. Each unit comprises one common share of the Company and one-half of one share purchase warrant. Each whole warrant is exercisable over a period of two years at a price of $1.10 in the first year and $1.20 in the second year.

The second private placement consisted of 2.3 million units of the Company at a price of $0.70 per unit for gross proceeds of $1.61 million. Each unit comprises one common share of the Company and one share purchase warrant. Each warrant is exercisable into one common share of the Company over a period of two years at a price of $1.00 for the first year and $1.20 the second year. However, in the event the closing price of the Company's shares is $1.25 or greater for a period of 15 consecutive trading days following the expiry of the initial 4 month hold period, then the warrants shall expire 10 trading days from such event. Subsequent to December 31, 2003, all of the warrants in connection with the second private placement have been exercised.

(iv) During 2003, the Company received $20,000 with respect to the issuance of common shares on the exercise of warrants. These shares were issued subsequent to December 31, 2003.

(b) The continuity of incentive stock options issued and outstanding during 2003 and 2002 is as follows:

	2003		2002	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Outstanding at beginning of year	376,500	$0.76	214,666	$8.70
Granted	-	-	376,500	$0.76
Cancelled	-	-	(214,666)	$8.70
Outstanding at end of year	376,500	$0.76	376,500	$0.76

In accordance with the policies of the TSX Venture Exchange, the option exercise price, when granted, reflect current trading values of the Company's shares and all of the options are subject to a four-month "hold" period from the date of grant. Of the outstanding options at December 31, 2003, 326,500 with an exercise price of $0.70 expire on May 2, 2004 and 50,000 with an exercise price of $1.15 expire on September 22, 2004.

If the fair-value method had been used to account for options granted to directors, officers and employees, the Company's loss and loss per share for the year ended December 31, 2002 would have been adjusted to the pro-forma amounts indicated below.

	Year ended December 31, 2002
Net loss – as reported	$ 1,419,613
Additional stock-based compensation expense	149,416
Net loss – pro-forma	$ 1,569,029
Basic and diluted loss per share – as reported	$ 0.21
Basic and diluted loss per share – pro-forma	$ 0.23

The fair value of options granted during 2002 had been estimated using an option-pricing model with the following weighted average assumptions:

(i) Average risk-free interest rate: 4.64%
(ii) Expected life: 2 years
(iii) Expected volatility: 106%
(iv) Expected dividends: Nil

The 33,500 options granted to non-employees during the year ended December 31, 2002 were valued under the fair value method using the same option-pricing model assumptions. A $13,343 value has been recorded in the 2002 financial statements as a charge to operations and a credit to contributed surplus.

(c) As at December 31, 2003, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price Per Warrant	Expiry Date
1,375,000	$1.00	September 26, 2004
1,500,000	$1.10	March 4, 2004
	$1.20	March 5, 2005
30,000 *	$1.00	July 24, 2004
	$1.20	July 25, 2005
2,905,000		

* Subsequent to December 31, 2003, all of these warrants were exercised.

As at December 31, 2002, there were 1.5 million share purchase warrants outstanding, exercisable at $1.00 per share, which expire on September 26, 2004.

9. INCOME TAXES

	2003	2002
Combined basic federal and provincial rates	37.6%	39.6%
Income tax recovery based on statutory income tax rates	$ 734,336	$ 367,979
Tax benefits not recognised on current year losses	(734,336)	(362,695)
Permanent differences	-	(5,284)
Income tax expense	$ -	$ -

Future income tax assets and liabilities arise from the following:

	December 31, 2003	December 31, 2002
Future income tax assets		
Mining resource properties and related expenditures	$ 1,709,981	$ 1,614,754
Canadian tax loss carry-forwards	2,012,763	1,858,893
	3,722,744	3,473,647
Valuation allowance	(3,722,744)	(3,473,647)
Net future income tax assets	$ NIL	$ NIL
Future income tax liabilities	$ NIL	$ NIL

At December 31, 2003, the Company had accumulated non-capital losses for Canadian income tax purposes of approximately $3,465,000 which expire as follows:

2004	389,000
2005	505,000
2006	109,000
2007	427,000
2008	653,000
2009	629,000
2010	753,000

The Company also has a capital loss carry-forward at December 31, 2003 of approximately $1,888,000 which has no expiry date and is deductible only against future capital gains, if any.

The Company also has, through Union and SC Lundin, other tax loss carry-forwards and deductions, the amounts, which are unlikely to be utilized.

10. OIL AND GAS PROJECT INVESTIGATION

Oil and gas exploration and project investigation:

	2003	2002
Third Party Evaluation	$ 7,473	$ -
Consulting	131,857	-
Legal	177,012	-
Technical Services	134,821	22,628
Travel	144,731	20,524
	$ 595,894	$ 43,152
Rincon Energy	307,165	-
Total	$ 903,059	$ 43,152

During 2003, the Company incurred $595,894 (2002 - $43,152) for general oil and gas project investigation in Kazakhstan, Ecuador, Argentina and Trinidad. The Company also expended $307,165 during 2003 (2002 - $Nil) in connection with its interest in Rincon Energy Partners, LLC ("Rincon")

Under the terms of the operating agreement with Rincon, the Company is required to make payments of approximately US$60,000 per quarter to January 31, 2005, for the purposes of idenitifying and pursuing oil and gas exploration and development opportunities in Texas, Louisiana and California.

11. CONTINGENT LIABILITIES

As a partner, Union is contingently liable for approximately US$485,000 (2002 - $552,000), which represents the other partner's share of the Partnership's liabilities (principally property taxes and accounts payable) at December 31, 2003.

12. RELATED PARTY TRANSACTIONS

(a) Due to related parties consists of:

	December 31, 2003	December 31, 2002
Loan payable to the former Chairman, including accrued interest (Note 6(a))	$ -	$ 1,357,008
Amounts payable to companies related through directors and/or management in common	6,443	41,239
	$ 6,443	$ 1,398,247

(b) Charges from the above related parties consist of:

	Year-ended December 31, 2003	Year-ended December 31, 2002
Management and administrative services fees	$ 180,000	$ 145,000
Office relocation costs	22,000	-
Financing fee (Note 6(a))	-	55,251
Loan interest	1,753	38,979
	$ 203,753	$ 239,230

13. SEGMENTED INFORMATION

The Company currently operates in one segment, the oil and gas industry.

The Company's revenues in 2002 were earned in Canada. The Company's capital assets as at December 31, 2003, which consist principally of its oil and gas interests, are situated in United States.

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2003, the Company:

(a) completed a private placement of one million units at $2.25 per unit with each unit consisting of one common share of the Company and one-half of a share purchase warrant. Each whole warrant is exercisable into one common share of the Company at a price of $2.50 over a period of one year. In the event that the Company's shares trade above $3.00 for a period of 10 consecutive trading days following the expiry of the 4 month hold period, then the warrants shall expire 15 trading days from such event. All the warrants in connection with this private placement were exercised.

(b) signed an agreement with Vitol Russia B.V. ("Vitol") in April 2004 to acquire a 50% interest in Samson/Vitol (Cyprus) Limited ("SV"), a Cyprus company which owns a 100% interest in the ZAO Pechoraneftegas project ("PNG") in the Komi Republic of Russia. Vitol currently owns 48% of SV but has signed an agreement to purchase the other 52% of SV. Under the terms of the agreement, Valkyries will acquire 50% of the shares of SV from Vitol for a total purchase price of US$39 million (the "Consideration") plus payment for 50% of the net working capital as at March 31, 2004 subject to adjustment from April 1, 2004 to completion date. The estimated net working capital at March 31, 2004 is US$3.068 million. A deposit of US$5 million was paid in April 2004 and will be applied to the Consideration upon completion of the acquisition. Vitol would retain the deposit if the transaction is not completed by November 1, 2004, or if the Company is unable to obtain regulatory approval or the approval by the Central Bank of Cyprus of the Company's purchase of SV or if the Company has not paid the purchase price in full. If completion does not occur by July 1, 2004, interest will accrue on the Consideration at Libor plus 2% from July 1, 2004 until the day of completion. The deposit was funded using US$ 3 million of cash on hand and a short term loan of US$2 million from the former Chairman of the Company which is not interest bearing and due on or before November 3, 2004. The lender is entitled to a bonus of common shares of the Company with a total market value of up to 20% of the amount of the loan, such shares to have a deemed value equivalent to the price of the shares sold pursuant to a proposed equity financing to finance the acquisition. The Company intends to finance this acquisition through a combination of bank debt and an equity offering in Canada. The acquisition is subject to satisfaction of certain conditions, including Vitol acquiring the remaining 52% of the shares of SV, approval by the Central Bank of Cyprus of the Company's purchase of SV and regulatory approvals on or before November 1, 2004.

VALKYRIES PETROLEUM CORP.
CORPORATE DIRECTORY
DECEMBER 31, 2003

OFFICERS
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Chairman
Keith Hill,
President
Wanda Lee,
Controller/Treasurer
Jean Florendo,
Corporate Secretary

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* Brian D. Edgar
Keith Hill
* Lukas H. Lundin
Pierre Besuchet
* William A. Rand

* Audit Committee

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The Bank of Bermuda
Bermuda

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Santa Catalina (Bermuda) II Ltd.
Santa Catalina (Algeria) Ltd.
Santa Catalina L.H. Lundin (Algeria) Ltd.
Valkyries California Corp.
Valkyries U.S.A. Ltd.
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SHARE CAPITAL
Authorized: Unlimited number of common shares
Issued and Outstanding: 17,378,048 shares

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SHARE LISTINGS
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